

OIL AND GAS CONSERVATION COMMISSION

845 North Park Avenue, #100
Tucson, Arizona 85719

Minutes of Meeting
July 8, 1994

Present:

Dr. J. Dale Nations, Chairman
Mrs. Lisa C. Worthington, Vice-Chair
Mr. James C. Lanshe, Member
Mr. Zed Veale, Member
Dr. Larry D. Fellows, State Geologist
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

The regular Commission Meeting of July 8, 1994, was called to order by Dr. J. Dale Nations, Chairman, at 10:00 a.m. in Room 500, State Capitol Tower, Phoenix, Arizona.

On behalf of the Commission, Dr. Nations welcomed Mr. Lanshe to the Commission as a member and presented him with Governor Symington's certificate of appointment.

APPROVAL OF MINUTES OF MEETING AND THE EXECUTIVE SESSION OF MARCH 11, 1994

The minutes of the regular Commission Meeting of March 11, 1994, were corrected on page 3 to read AAPG rather than AIPG.

Mrs. Worthington moved, seconded by Mr. Veale:

THAT THE MINUTES OF THE MEETING AND THE EXECUTIVE
SESSION OF MARCH 11, 1994, BE ACCEPTED AS CORRECTED

Motion carried unanimously.

STATEMENT OF DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported that fiscal year 1993-94 ended June 30th. He noted that the 5% budget cut resulted in a 4 page rather than 12 page *Arizona Geology* and elimination of an editor position. He reported that fiscal year 1994-95 appropriation includes no increase or decrease except for the statewide salary increase which starts in July. He is working on the 1994 annual report which will have a section on the Oil and Gas Conservation Commission. He welcomed any comments or suggestions from the Commissioners on that. He reported the fiscal year 1996-97 budget will be the first biennial budget and is due September 1. He reported that the contractor's three final reports on the Alpine geothermal hole will be

released in the contributed report series and will be announced in the fall issue of *Arizona Geology*.

Dr. Fellows passed out copies of the Mined Land Reclamation Bill which passed the last legislative session. He pointed out that part of the bill dealing with the formation of a study committee to determine who will administer reclamation of mines on private land and review the need for a consolidated department of mineral resources. Dr. Fellows indicated that he will follow this closely as both the Commission and the Geological Survey will be considered in this consolidation. He will keep the Commission advised on its progress.

Dr. Fellows passed out copies of proposed oil & gas projects for the coming fiscal year. He described the projects as providing a basic service to independent companies that generally do not have the staff to prepare such information. He asked for comments and suggestions from the Commission with the request that they consolidate their comments through the Chairman, preferably by September 1. He noted the underlying themes of the projects was the best use of limited staff time to publicize oil and gas potential to cause people to come in and do additional exploration and drilling. After short discussion on the projects, Dr. Nations and Mrs. Worthington suggested putting further discussion including discussion of goals and objectives on the agenda for the next meeting.

Mr. Lanshe acknowledged these areas as a good first step but noted his interest in the Commission being proactive in a more comprehensive program of generating interest in the state, one which also included programs of inducement to exploration since Arizona is competing with states that have incentive programs and better known reserve potential than Arizona. He welcomed the opportunity to be part of a more comprehensive program.

Dr. Fellows asked about establishing an agenda and if the Commission had a policy for how that was done. He asked if any Commissioner could request an item be included, if it was cleared through the Chair, or just how it was done. He requested some guidance on this. Dr. Nations indicated a policy was never established because the Commission was never faced with a need to have one. He stated it was a good idea, however, to have the Chair clear which items were to be placed on the agenda. He asked Mr. Rauzi to include establishment of policy for agenda development on the agenda for the next meeting.

Dr. Nations noted the elimination of the budget item for dues to the Interstate Oil and Gas Compact Commission (\$3,000) and asked Dr. Fellows to again request funds for the dues and travel to at least one of the four IOGCC meetings. Mrs. Worthington requested that notice of such meetings be provided to the Commissioners. Dr. Fellows acknowledged that Mr. Rauzi could provide that. Dr. Nations suggested going beyond the budget request and write a letter requesting the Governor to consider supporting it.

Mr. Lanshe asked if the Commission's sunset review was connected with the consolidation in the new department. Dr. Fellows explained that it was not, that it was separate.

REPORT OF THE OIL AND GAS PROGRAM ADMINISTRATOR

The activity report of Mr. Rauzi was sent to the Commissioners and has been made a part of these minutes. Mr. Rauzi noted the recent good press for Arizona and passed out two articles on the new well to be drilled near St. Johns. He reported that he had delivered the bond for the well to the State Treasurer this morning and that he would be issuing the permit to drill on his return to Tucson. Mr. Rauzi advised the Commission on the status of the certification of the 3rd set of rules by the Attorney General.

STATUS OF #1 AND #2 POWER RANCHES GEOTHERMAL WELLS

Mr. Rauzi introduced Mr. L. W. Brooks Jr. and acknowledged a letter authorizing Mr. Brooks to act on behalf of the Power Ranches' interests with respect to getting the two wells plugged. Mr. Brooks noted that he just moved to Scottsdale from Denver, reviewed his background in the oil and gas industry, and indicated that he will be getting together with Mr. Rauzi in about a month to work out a program to plug the wells in compliance with the Commission's rules. Mr. Rauzi reported that the rules allow for the use of bridge plugs and that this alternative will be considered when he and Mr. Brooks get together.

COMMISSION OIL & GAS POLICY ON INDIAN AND FEDERAL LANDS

Mr. Rauzi reviewed the background material sent to the Commissioners. He noted that he had sent a letter to the Navajo Nation Minerals Department inviting their participation in this meeting after he had received a phone call from them requesting a copy of the Commission's oil and gas rules. Mr. Rauzi included Utah and New Mexico's policy in the background material because the Navajo Nation extends into both of these states.

Dr. Fellows introduced Mr. Larry Bauer, Deputy State Director of Minerals, State Office of the U.S. Bureau of Land Management (BLM), and John Haas of his staff. They reviewed the BLM's policy on native lands. Mr. Bauer reported that a four-state BLM agreement leaves all regulation of the Navajo Nation to the Farmington Office, which has 20 inspectors. He pointed out that the BLM has in place a memorandum of understanding with the Arizona Geological Survey for the exchange of information and that this could be expanded to include wellsite inspection data. He indicated that he and Mr. Haas would be going to Farmington in about a month and offered to advise the Commission of the Farmington inspectors' plans for Arizona for the next year.

Dr. Fellows reported that he requested Mr. Rauzi to include this item on the agenda because with the small staff, limited budget, and probable lack of Commission jurisdiction on Navajo Lands, witnessing wellsite activities on Navajo Lands may not be the best use of the limited resources. Mr. Dulsky stated that the Commission has no jurisdiction on Indian lands.

The Commission acknowledged there was no need to duplicate the work of the BLM. Dr. Nations recommended that the Commission identify areas of duplication and address those

left over. Mr. Lanshe agreed and pointed out that before the Commission could consider what they were responsible for it first needed to know which wells the BLM is and is not covering. Dr. Nations noted that the Commission does not have enough information at this time to make a decision and suggested that the Commission accept the offer of Mr. Bauer and Mr. Haas to talk with the Farmington office and advise the Commission at a later meeting. He asked Mr. Rauzi to include this item on the agenda for the next meeting.

OIL AND GAS EXPLORATION INCENTIVES

Mr. Rauzi reviewed the background material sent to the Commissioners. He noted the economic incentives being passed in the major producing states and concluded, based on the need to stimulate drilling activity, that a tax credit per well similar to the one in Texas may be the most appropriate for Arizona. Other factors that may be considered as types of incentives would include reasonably low bond amounts, low application fees, more than competitive leasing terms, reasonable environmental regulation, and a unified approach of all state agencies.

Mrs. Worthington indicated that it may be possible to make the leasing terms on State Trust Land more competitive than they are. Dr. Nations asked Mr. Rauzi about the letter to the State Land Commissioner the Commission requested him to prepare in the March 1994 meeting. Mr. Rauzi read the letter to the Commissioners and advised that no action was taken on the letter. Dr. Nations asked Mr. Rauzi to add a paragraph inviting the State Land Commissioner to the next meeting to discuss leasing terms on State Trust Land as an incentive. He indicated that if the Commission gave him authority he would sign such a letter and send it.

Mr. Lanshe moved, seconded by Ms. Worthington:

THAT DR. NATIONS SIGN AND MAIL THE LETTER

Motion carried unanimously.

Mr. Rauzi advised that in addition to preparing geologic reports the Commission could actively promote the State of Arizona by participating in selected industry-related meetings. He noted several that were not available because of budgetary constraints. Dr. Nations suggested that the Commission request out-of-state travel funds for the purpose of promoting potential in Arizona. Dr. Fellows pointed out that for the past two years the Office of Strategic Planning and Budgeting had approved out-of-state travel for only the agency director to attend national meetings and limited him to two.

Mr. Lanshe acknowledged the need for geologic reports and establishing memberships in organizations but considered the first step is to determine whether or not there really is additional oil potential in Arizona which could be represented to people as worth exploring for. He noted that if there really is something in Arizona where experts could agree the

data supports a concerted effort then there are lots of ways to exploit those opportunities but that it could not be done if one could not legitimately look someone in the eye and say it is worth going into Arizona.

Dr. Nations advised that it was generally recognized in the geological community that Arizona does have oil and gas potential. He noted, however, that native lands could not be excluded from the Commission's efforts because that is where the greatest potential is and that the state did gain some benefits from production there. He agreed with Mr. Lanshe that the Commission needed to develop a promotional mentality.

Mr. Lanshe observed that the first step is to sell the people in the state because the Commission needed a bigger budget. He pointed out that efforts right now are very restricted and that the Commission needed to get people in the state to believe there is potential here in order to provide some funding to put some of these things in place. He hoped that out of this discussion the Commission could work on getting the right people at the state government level to help the Commission carry out its job.

Dr. Fellows reported on the Geological Survey's budget process and indicated that some support on the part of the Commission towards budget items such as IOGCC dues and travel to out-of-state meetings would be helpful. Mr. Lanshe noted that the Commission was trying to achieve certain goals and objectives and asked Dr. Fellows what input it had in the budget that he was overseeing. Dr. Fellows responded that it had a lot and described the process of going through the budget analysts and the Appropriation Subcommittee hearings in the House and Senate noting that if someone from the Commission testified or submitted something in writing to either the analysts or at the hearings, the Legislators themselves factor those things in.

Mr. Lanshe asked if after the budget has been allocated to the Geological Survey did the Commission interface with Dr. Fellows in any way with respect to how those funds are subsequently allocated. Dr. Fellows explained that he submits a detailed budget outlining how funds are to be spent and that once he gets it, he is obligated to spend it in the way they said they were going to when the budget was submitted. Dr. Fellows noted the matter of getting additional funds to do things.

Mr. Lanshe asked, absent the availability of additional funds, if the Commission had any flexibility in dealing with Dr. Fellows toward how much money is going to be allocated to its activities. Dr. Fellows responded by explaining the allocated amount of the Geological Survey's budget and noted his hesitancy to shift money from basic geologic mapping and research and put it on to something which had not been requested. In closing this discussion, Dr. Nations requested that this item be on the agenda for the next meeting.

PROPOSED STATUTORY AMENDMENTS TO A.R.S. §§ 27-516(A)(3) AND 27-654

Mr. Rauzi reviewed the background material and the need for the statutory changes.

Ms. Worthington moved, seconded by Mr. Lanshe:

THAT THE COMMISSION APPROVE THE PROPOSED STATUTORY AMENDMENTS TO A.R.S. §§ 27-516(A)(3) AND 27-654

Motion carried unanimously.

ELECTION OF VICE-CHAIR

After a short discussion,

Dr. Nations moved, seconded by Mr. Lanshe:

THAT LISA WORTHINGTON BE ELECTED AND SERVE AS VICE-CHAIR OF THE OIL AND GAS CONSERVATION COMMISSION

Motion carried unanimously.

CALL TO THE PUBLIC

None.

DISCUSSION OF RULE ON UNANTICIPATED SITUATIONS and STATUS OF #1 AND #2 POWER RANCHES GEOTHERMAL WELLS

Ms. Worthington moved, seconded by Mr. Veale:

THAT THE COMMISSION GO INTO EXECUTIVE SESSION

Motion carried unanimously. At 11:40 a.m., the Executive Session began.

The regular meeting resumed at 11:55 a.m.

ANNOUNCEMENTS

The next meeting was scheduled for October 28, 1994, at the Capitol Tower.

ADJOURNMENT

Mrs. Worthington moved, seconded by Mr. Veale:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 12:00 p.m.

APPROVED



Dr. J. Dale Nations
Chairman

GUESTS IN ATTENDANCE:

Beryl I. Dulsky	Assistant Chief Council, Attorney General's Office
L. W. Brooks, Jr.	Power Ranches Interests
Larry Bauer	Bureau of Land Management
John Haas	Bureau of Land Management